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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

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CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-02 PA-02 PRS-01 USIA-15 SAJ-01 /100 W
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FM AMEMBASSY ROME
TO SECSTATE WASHDC 9325
INFO EC BRUSSELS 5899
AMCONSUL MILAN
AMCONSUL NAPLES
OECD PARIS 0027

UNCLAS ROME 1531
E.O. 11652 N/A
TAGS: EFIN, IT
SUBJ: GOI ADOPTS NEW CREDIT MEASURES

A. ROME 17666 DATED DECEMBER 24, 1974
B. ROME 17709 DATED DECEMBER 27, 1974
C. ROME 1017 DATED JANUARY 23, 1975

1. /SUMMARY/. IN ADDITION TO MEASURES REPORTED REFTELS, MINISTERIAL CREDIT COMMITTEE (ICC) ON JANUARY 30 ADOPTED NEW CREDIT MEASURES DEALING WITH: (1) BANK RESERVE REQUIREMENTS, (2) FORCED INVESTMENT BY BANKS IN FIXED-TERM SECURITIES, (3) PREFERENCE FOR AGRICULTURAL CREDITS WITHIN CURRENT 15 PERCENT INDIVIDUAL BANK CREDIT CEILINGS, (4) INCREASE IN EXPORT CREDIT INSURANCE CEILING AND IN EXPORT CREDIT INTEREST RATE SUBSIDIES, AND (5) PARTIAL CONSOLIDATION OF BANK DEB TOF ITALIAN HOSPITALS. /END SUMMARY/.

2. /RESERVE REQUIREMENTS/: ICC HAS REDUCED TO 15 PERCENT RESERVE REQUIREMENTS APPLICABLE TO ALL NEW DEPOSITS OF COMMERCIAL
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BANKS AND OF SAVINGS BANKS (FOR WHICH RESERVE RATIO WAS FORMERLY

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22.5 PERCENT AND 20 PERCENT RESPECTIVELY). ALSO, UPON RECOM-
MENDATION OF BANK OF ITALY, MINISTER OF TREASURY MAY INCREASE
OR DECREASE THIS RESERVE RATIO BY 5 PERCENTAGE POINTS (I.E.,
CREATING RANGE OF 10-20 PERCENT FOR RESERVE RATIO) AND IS
AUTHORIZED TO APPLY VARYING RESERVE RATIOS TO DIFFERENT
CATEGORIES OF DEPOSISTS.

3. /FORCED INVESTMENTS IN BONDS/: EXISTING REQUIREMENT THAT
BANKS INVEST ABOUT 12 PERCENT OF THEIR DEPOSITS AS OF DECEMBER
31, 1972 IN FIXED-YIELD BONDS HAS BEEN EXTENDED IN MODIFIED FORM
UNTIL JUNE 1975. (ORIGINAL REQUIREMENT OF 3 PERCENT WAS PRO-
GRESSIVELY RAISED BY 3 PERCENT EACH SEMESTER IN 1973 AND 1974.)
ADDITIONAL AMOUNT TO BE INVESTED IN THESE FIXED-YIELD MATURITIES
IS NOW SET AT 40 PERCENT OF NEW DEPOSITS. (THESE INVESTMENTS
MAY INCLUDE THOSE LONGER-TERM BONDS WHICH HAD FORMERLY BEEN
ACCEPTABLE AS PART OF OBLIGATORY RESERVES.) NOMINAL VALUE
OF FIXED YIELD BONDS IS TO BE USED IN CALCULATING 40 PERCENT
RATIO. (IN TERMS OF ACTUAL MARKET VALUE, EFFECTIVE RATIO WOULD
BE ABOUT 32-33 PERCENT OF NEW DEPOSITS.) PRESS REPORTS THAT
MONETARY AUTHORITIES PLAN LATER TO ISSUE SEPARATE REGULATION
CONCERNING COMPOSITION OF BONDS TO BE HELD AGAINST 40 PERCENT
REQUIREMENT, OF WHICH 5 PERCENT WILL BE IN FORM OF HOSPITAL
BONDS MENTIONED BELOW.

4. /AGRICULTURAL CREDIT/: SHORT-TERM (WORKING CAPITAL) CREDITS
TO AGRICULTURE ARE TO BE EXCLUDED FROM EXISTING 15 PERCENT
BANK CREDIT EXPANSION CEILING FOR INDIVIDUAL BANKS DURING
REMAINDER OF PERIOD APRIL 1, 1974 TO MARCH 31, 1975. ALSO,
ICC FORESEES SPECIAL LEGISLATIVE MEASURES DESIGNED TO SUBSIDIZE
INTEREST PAYABLE ON AGRICULTURAL CREDITS.

5. /EXPORT CREDIT/: TO FACILITATE INCREASE IN EXPORT CREDIT,
ICC PROPOSED INCREASE IN EXPORT CREDIT INSURANCE CEILING
TO 1,400 BILLION LIRE FROM CURRENT 700 BILLION LIRE CEILING.
PRESS COMMUNIQUE ALSO INDICATED THAT GOI PLANS TO INCREASE
BUDGET APPROPRIATION TO FINANCE INTEREST RATE SUBSIDIES FOR
EXPORT CREDITS.

6. /HOSPITAL CREDIT/: CREDIT COMMITTEE APPROVED ISSUE OF
300 BILLION LIRE, 10-YEAR TREASURY BONDS TO BE DEPOSITED WITH
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BANKS TO SUBSTITUTE FOR BANK CREDIT PREVIOUSLY GRANTED TO
FINANCIALLY PRESSED ITALIAN HOSPITALS. BONDS ARE MARKETABLE
BUT PART MUST BE RETAINED AGAINST NEW 40 PERCENT PORTFOLIO
INVESTMENT REQUIREMENT.

7. /COMMENT/: DR. FAZIO, HEAD OF RESEARCH OFFICE OF BOI, EXPLAIN-
ED TO JOURNALISTS AFTER ANNOUNCEMENT OF CREDIT MEASURES THAT
EFFECT OF RESERVE REQUIREMENT CHANGE WOULD BE APPROXIMATELY

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NEUTRAL AS REGARDS OVERALL CREDIT EXPANSION OR CONTRACTION.
HE SAID THAT COMBINED MARGINAL RESERVE REQUIREMENT ON CHANGES
IN BANK DEPOSITS (INCLUDING CASH RESERVE AND PORTFOLIO INVEST-
MENT REQUIREMENTS) WOULD NOW BE ABOUT 46-47 PERCENT, OR
SLIGHTLY LESS THAN PREVIOUSLY. FAZIO NOTED THAT, OF FORMER
22.5 PERCENT RESERVE REQUIREMENT OF COMMERCIAL BANKS, ABOUT
13-14 PERCENT HAD BEEN IN FORM OF CASH, COMPARED TO NEW 15
PERCENT CASH REQUIREMENT. (ENTIRE 15 PERCENT OF RESERVE
REQUIREMENT MUST NOW BE DEPOSITED IN FORM OF CASH. ORDINARY
TREASURY BILLS AND CERTAIN LONG-TERM SECURITIES MAY NO LONGER
BE USED, ALTHOUGH LONG-TERM SECURITIES MAY NOW BE COUNTED
AGAINST NEW 40 PERCENT PORTFOLIO INVESTMENT REQUIREMENT.)
8. INTENT OF MODIFICATIONS IN RESERVE REQUIREMENT INSTRUMENT IS
TO SIMPLIFY SYSTEM BY SEPARATING CASH REQUIREMENT FROM FORCED
PORTOFOLIO INVESTMENT REQUIREMENT. FORMER WOULD THEN BE
MORE FREELY USABLE AS ANTI-CYCLICAL DEVICE, WHILE LATTER COULD
CONTINUE TO BE USED INDEPENDENTLY AS PART OF PROGRAM OF
DIRECTING CREDIT TO PRIORITY INVESTMENT OBJECTIVES. CHANGE
IN BASIS OF CALCULATING PORTFOLIO INVESTMENT REQUIREMENT FROM
TOTAL DEPOSIT BASE TO CHANGES IN DEPOSIT BASE IS DESIGNED TO
IMPROVE EFFECTIVENESSS OF THIS INSTRUMENT BY MAKING IT APPLICABLE
ONLY TO BANKS WHOSE DEPOSITS HAVE CHANGED OVER CERTAIN PERIODS,
RATHER THAN BY REPEATEDLY APPLOYING NEW PORTFOLIO INVESMENT
REQUIREMENT TO TOTAL DEPOSIT BASE (WHEHTER OR NOT IT HAD INCREASED)
AS WAS CASE UNDER OLD SYSTEM. CHANGE IN RESERVE REQUIREMENT
OF COMMERCIAL BANKS IS FIRST MAJOR CHANGE SINCE 1974, WHEN
25 PERCENT REQUIREMENT WAS INTRODUCED AND SINCE 1962, WHEN
RATE WAS LOWEVERED TO 22.5 PERCENT.

9. INCREASE IN CEILING ON EXPORT CREDIT INSURANCE TO 1,400
BILLION LIRE DOES NOT REFER TO ANY FIXED-TERM PERIOD. HOWEVER,
IT SHOULD BE SUFFICIENT ON BASIS OF PAST EXPERIENCE TO COVER
SEVERAL YEARS OF EXPORT CREDIT INSURANCE. APPARENTLY, ITALIAN
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AUTHORITIES ARE GIVING SOME CONSIDERATION TO ADOPTING NEW
DEVICE WITH WHICH TO AUTOMATICALLY INCREASE INSURANCE CEILING
IN LINE WITH EXPORT GROWTH. NEW CEILING MUST, IN ANY CASE,
STILL RECEIVE PARLIAMENTARY APPROVAL. NO AMOUNT WAS MENTIONED
FOR INCREASE IN INTEREST RATE SUBSIDY ON EXPORT CREDITS.
HOWEVER, FAZIO TOLD EMBOFF THAT COMMITTEE HAD 50-60
BILLION LIRE IN MIND. THIS PROPOSAL, TOO, MUST STILL BE
APPROVED BY LEGISLATIVE ACT.VOLPE

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